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No. .....

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In the Supreme Court

OF THE

United States

OCTOBER TERM, 1981

VELO-BIND, INCORPORATED, a California corporation,
Petitioner,

vs.

MINNESOTA MINING AND MANUFACTURING COMPANY,
a corporation;
3M BUSINESS PRODUCTS SALES, INC., a corporation;
RO-BIND CORPORATION, a corporation; and
RALLY INDUSTRIES, a corporation,
Respondents.

Petition for a Writ of Certiorari to the United States Court of Appeals for the Ninth Circuit

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QUESTIONS PRESENTED

First Question: Supplies Damages

Velo-Bind holds valid patents for a machine for binding documents or books, usually in an office environment. The machine uses certain supplies, principally unpatented plastic binding strips specifically referred to in the machine patents. Velo-Bind manufactures and sells the patented binding machines, as well as the plastic binding strips, which are useful only with its machines. It was and is the sole manufacturer of such strips.

3M infringed Velo-Bind's patents by manufacturing and selling a competing binding machine, which uses plastic strips of a different design, manufactured by 3M.

About one-quarter of Velo-Bind's resulting damages was for lost profits on sales of machines which it was deprived of by 3M's infringement, and the other three-quarters for lost profits on the sales of strips which it would otherwise have sold for use with its displaced machines.

The first question is whether Velo-Bind's compensable damages are limited to the lost profits on machines or whether they include the lost strips profits, as well. Stated abstractly: Is a patentee entitled to an award for *all* of its foreseeable damages demonstrably resulting from an infringement, as Section 284 of the Patent Law (35 U.S.C. §284) indicates and as the Second Circuit and the Court of Claims have held—or only for lost profits on displaced sales of the patented product itself, as the Ninth Circuit held in this case? In other words, is it the law that "infringement pays" where the infringer keeps supplies profits resulting from his infringement, while his victim is without redress for his corresponding lost supplies profits?

Second Question: Increased Damages and Attorneys' Fees

3M knew of Velo-Bind's patents, and in fact had unsuccessfully attempted to obtain a license under them, but elected to market its competing machine, anyway, after first seeking to obtain indemnification for its infringement. 3M's infringement put into peril Velo-Bind's continued existence. When sued, 3M asserted various questionable defenses, one of which was the subject of a directed verdict, another of which was characterized by the District Court as "strain[ing] credulity," and others of which were abandoned on appeal.

Even after its "defenses" had been rejected by the court and the jury (but before a ruling on its post-trial motions) 3M continued to infringe, in fact accelerating its marketing program by making sales below cost. It ceased only on the eve of entry of judgment.

The second question comes in three parts: (1) Are such circumstances so aggravated that the trial court *must* exercise its discretion to award increased damages and attorneys' fees to Velo-Bind pursuant to Sections 284 and 285 of the Patent Law (35 U.S.C. §§ 284, 285)? (2) If not, must the court justify a denial with appropriate findings of fact under Fed.R.Civ.P. 52(a) so that a reviewing tribunal will have some way of knowing whether the court's discretion was lawfully exercised? (3) Was it permissible for the Court of Appeals to "take away" three-quarters of Velo-Bind's damages without remanding the case to the District Court to consider that changed circumstance as it relates to its exercise of discretion whether to award increased damages and attorneys' fees? Stated abstractly: Are increased damages and attorneys' fees a gift that a court can bestow on one patentee and decline to bestow to an equally deserving, equally aggrieved patentee, or, alternatively, must the courts follow defined legal standards, and must they demonstrate that they have done so by making findings of fact pursuant to Rule 52(a) of the Federal Rules of Civil Procedure?

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RALLY INDUSTRIES, a corporation,
Respondents.

Petition for a Writ of Certiorari to the United States Court of Appeals for the Ninth Circuit

Velo-Bind, Incorporated petitions for a writ of certiorari to review the decision of the United States Court of Appeals for the Ninth Circuit reversing a portion of the damages awarded, and affirming the denial of increased damages and attorneys' fees.

OPINIONS BELOW

The opinion of the Court of Appeals (Appendix A) is reported at 647 F.2d 965. The order denying the parties' petitions for rehearing (Appendix B) is not reported. The order of the District Court denying petitioner's motions for increased damages and attorneys' fees (Appendix C) and the Judgment entered in the District Court (Appendix D) are also not reported.

JURISDICTION

The opinion of the Court of Appeals was filed on June 8, 1981. Timely petitions for rehearing were denied on July 14, 1981. Jurisdiction of this Court is invoked under 28 U.S.C. § 1254(1).

STATUTES AND RULE INVOLVED

Section 284 of the Patent Law (35 U.S.C. § 284) provides:

> "Upon finding for the claimant the court shall award the claimant damages adequate to compensate for the infringement, but in no event less than a reasonable royalty for the use made of the invention by the infringer, together with interest and costs as fixed by the court.
>
> "When the damages are not found by a jury, the court shall assess them. In either event the court may increase the damages up to three times the amount found or assessed.
>
> "The court may receive expert testimony as an aid to the determination of damages or of what royalty would be reasonable under the circumstances."

Section 285 of the Patent Law (35 U.S.C. § 285) provides:

> "The court in exceptional cases may award reasonable attorney fees to the prevailing party."

Federal Rule of Civil Procedure 52(a) provides:

> "In all actions tried upon the facts without a jury or with an advisory jury, the court shall find the facts specially and state separately its conclusions of law thereon, and judgment shall be entered pursuant to Rule 58; and in granting or refusing interlocutory injunctions the court shall similarly set forth the findings of fact and conclusions of law which constitute the grounds of its action. Requests for findings are not necessary for purposes of review. Findings of fact shall not be set aside unless clearly erroneous, and

due regard shall be given to the opportunity of the trial court to judge of the credibility of the witnesses. The findings of a master, to the extent that the court adopts them, shall be considered as the findings of the court. If an opinion or memorandum of decision is filed, it will be sufficient if the findings of fact and conclusions of law appear therein. Findings of fact and conclusions of law are unnecessary on decisions of motions under Rules 12 or 56 or any other motion except as provided in Rule 41(b)."

STATEMENT OF THE CASE

Jurisdiction

This action by Velo-Bind[1] against 3M[2] for patent infringement was brought pursuant to 28 U.S.C. § 1338(a) in the United States District Court for the Northern District of California.

Velo-Bind's Claims and Injuries

The patents are for a machine capable of binding documents or books, usually in an office environment. Pl.Exs. 1, 2. The machine uses certain unpatented supplies, principally plastic strips to effect the bind. Tr. 158:23-160:5. The strips are expressly mentioned in the machine patents and are useless except with the machine.

Velo-Bind and 3M were the only manufacturers of the patented machine. Velo-Bind was and is the only manufacturer of strips usable with the Velo-Bind machine (Tr. 160:11-21), and 3M was and is the only manufacturer of strips usable with the 3M machine.

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[1]The full name of Velo-Bind is Velo-Bind, Incorporated. It has no parents, subsidiaries or affiliates.

[2]The full name of 3M is Minnesota Mining and Manufacturing Company. For simplicity, the other defendants are generally not separately referred to. Velo-Bind believes that it is undisputed, however, that the issues as to 3M are the same as to the other defendants-respondents.

About one-quarter of Velo-Bind's damages was for lost profits on machine sales it was deprived of by 3M's infringement. About three-quarters were attributable to lost profits on supplies for the Velo-Bind machine which Velo-Bind would have sold but for 3M's infringement. Velo-Bind sought to recover all of its damages, including lost profits on machines and lost profits on plastic binding strips.

Trial and Appeal

After a jury trial in which Velo-Bind's patents were specifically found to be valid and infringed, Velo-Bind was awarded a verdict for its lost profits on both its displaced machine sales and its displaced sales of supplies for use with its machines. The District Court denied 3M's motions for judgment n.o.v. and a new trial. Judgment was entered for the full monetary damages and an injunction as well.

3M appealed to the Court of Appeals for the Ninth Circuit, which affirmed on the issues of validity and infringement but reduced the judgment from $3,934,333 to $913,578, eliminating the damages for lost strips sales.

Velo-Bind cross-appealed because the District Court had denied its motions for trebling or otherwise increasing its damages and awarding it attorneys' fees, and the Court of Appeals affirmed that, too. To put that part of the case in context, it is necessary to go back to a time four years before 3M began selling its competing machine.

Facts Regarding 3M's State of Mind

In 1971, while its patent applications were pending, Velo-Bind was looking for a partner with resources adequate to help it exploit its technology, and to that end it entered into negotiations with 3M. Tr. 131:10-132:3; 135:6-14; 717:3-10. After investigating Velo-Bind's patent applications and searching prior art, 3M sought to obtain the right to a license under such patents as Velo-Bind might receive.[3]

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[3] *E.g.*, Pl.Exs. 32, 33, 37, 38, 41, 43; see Pl.Ex. 39, attached "Agreement," pp. 1-2, 5-6; Tr. 138:11-139:18; 718:12-17.

At no time did 3M intimate, let alone state, that it had the slightest question concerning the validity or efficacy of Velo-Bind's claim to patent rights. Tr. 142:5-20; 718:3-11. To the contrary, 3M commented favorably on Velo-Bind's applications, mentioning as a minor problem only one point, a point not involved in this case. Pl.Exs. 32, p.3, 41; Tr. 1222:8-23. At no time did 3M suggest that any of the validity defenses that it was later to assert in this case had any merit, or, for that matter, that such defenses even existed.[4]

Velo-Bind rejected 3M's proposal, and commenced successfully manufacturing and marketing machines based upon its patent claims, and also unpatented plastic binding strips for use with its machines.

When Velo-Bind's first patent formally issued, 3M's predecessor, Rally/Ro-Bind,[5] set out to develop a similar system, and did develop a practically identical machine in all important respects, which used plastic strips of a different design.[6]

Rally/Ro-Bind then entered into negotiations with 3M to sell its binding business to 3M. 3M was concerned about infringing Velo-Bind's patents, however. 3M and Rally/Ro-Bind negotiated with one another, each with the objective of saddling the other with as much responsibility as possible for the consequences of infringement of Velo-Bind's patents.[7] At one time, 3M rejected a draft agreement with

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[4]Tr. 142:5-20; 718:3-11; 1220:25-1223:11; Pl.Exs. 27, p. 2 (no response by 3M to substance of letter), 37, p. 1.

[5]This name refers to two affiliated corporations, defendants and respondents, Rally Industries and Ro-Bind Corporation, which were subsequently merged into 3M.

[6]Cl.Rec. 141, pp. 10-12, ¶¶ 48, 53-56; Tr. 1334:22-25; 1336:1-25; 1839:23-1846:15; 1848:14-1852:24; 1585:10-1589:1; Pl.Ex. 1652.

[7]Pl.Exs. 124, Agreement, p. 8, subsection (g); 125 "Agreement," p. 6, including handwritten note of Jarrett Folley; 128, p. 1; 1699, p. 6, subsection (h) and Exhibit D thereto.

the notation, "No—need representation that [Velo-Bind patent] doesn't conflict & if so then get offset for expenses & damages."[8]

Rally/Ro-Bind rejected 3M's demand that it make a representation of non-infringement. In fact, in the merger agreement ultimately reached, Rally/Ro-Bind expressly refused to represent that its machine did not infringe Velo-Bind's patent. Pl. Ex. 1699, pp. 17-18, § 4.17, and Exhibit D thereto. The agreement also specifically provided that, if Velo-Bind charged 3M with infringement of that patent, 3M was free to negotiate a license from Velo-Bind, and the cost of defending against infringement and the cost of royalties paid to Velo-Bind would be divided evenly between 3M and Rally/Ro-Bind. Pl.Ex. 1699, p.6, § 1.05(h), and Exhibit D thereto.

Although 3M's inside attorney, Smith, during the negotiations rendered written opinions about the Rally/Ro-Bind type strips that 3M would be manufacturing and selling, he carefully avoided ever including in his opinions anything to suggest that the Rally/Ro-Bind machines would not infringe Velo-Bind's patents. Special Exs. E and F, hearing of April 20, 1979. During this period, 3M failed to seek the advice of independent, outside counsel. Tr. 2629:17-2632:12; 2662:13-17.

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[8]Pl.Ex. 125, p. 6. 3M wanted indemnification for damages from infringing Velo-Bind's patents. As stated during these negotiations by 3M's negotiator, Jarrett Folley, to Rally/Ro-Bind's attorney, Larry W. Sonsini: "It was my understanding that you would include a representation covering (sic) infringement of the Appleguard (sic) patent. What we desire is a representation to the effect that the Appleguard (sic) patent does not infringe and if it would, 3M could offset expenses and damages or royalties against the earnout. It is Jim Smith's [3M's in-house patent counsel] opinion that this provision was agreed upon. I recall our discussion and note that you have deleted my former paragraph (g) but have not included any representation concerning the Appleguard (sic) patent." Pl.Ex. 128, p. 1.

When it commenced to sell its infringing machines and was promptly sued, 3M asserted numerous questionable defenses. Velo-Bind, 3M contended, had not had clean hands in applying for its patents, requiring that they be voided. Cl.Rec. 141, p.21, ¶ 58. The result: directed verdict and no appeal. 3M asserted, also, that not all of the persons who were inventors were named in the principal application, requiring that the patent be voided. Cl.Rec. 141, p.19, ¶ 39. Result: a contrary jury verdict and no appeal. 3M further argued that subsequent patents awarded to it for new developments by Rally/Ro-Bind prevented recovery by Velo-Bind. Result: contrary instructions and no appeal. 3M's principal defense, at least in terms of time, effort and words, was that a 1911 purse-making machine invention anticipated Velo-Bind's invention. Cl.Rec. 141, p.18, ¶ 33. Result: a contrary jury determination and a statement by the District Court, quoted by the Court of Appeals, that 3M's contention "strain[ed] credulity." Cl.Rec. 273, p.3; Appendix A, p.12.

While the trial was underway, 3M admitted to selling its machines at prices that were lower than 3M's costs. Tr. 1938:9-15; Cl.Rec. 244, Schedule A, p. 30; Tr. 1376:16-1377:13. These sales continued well after the court ruled against 3M on its motions for a directed verdict—and even after the jury returned a verdict for Velo-Bind. Tr. 2621:21-2622:23.

This conduct exposed Velo-Bind, a small, one product line company, to the threat of extinction. The record is void of any evidence, however, that 3M, a vastly larger company, gave any thought at all to the morality of its conduct. 3M's only concern was whether it could turn a profit. The answer to that question—whether infringement pays when the principal profits result from the sales of unpatented supplies for use with the patented machine—depends in large part upon the resolution of the damages issues to which this petition is directed.

REASONS FOR GRANTING THE WRIT

I

SUPPLIES DAMAGES

About one-quarter of Velo-Bind's actual damages was for lost profits on its reduced sales of patented machines. About three-quarters were for lost profits on its reduced sales of unpatented supplies usable only with its machines, mostly plastic binding strips. The strips are expressly mentioned in Velo-Bind's machine patents, and they are clearly non-staples which are substantially worthless except when used with one of the patented machines.

Although these supplies damages were foreseeable, were proximately caused by 3M's infringement and represented the bulk of Velo-Bind's injury, the Court of Appeals denied Velo-Bind any compensation for them.

In effectively concluding that the courts were powerless to make Velo-Bind whole, the Court of Appeals brought itself in conflict with the decisions of at least one other Court of Appeals, the Court of Claims and numerous District Courts. Moreover, this case presents an important unresolved question of federal law which should be settled by this Court.

A. The Decision Is in Conflict with Other Federal Courts, Including the Court of Appeals for the Second Circuit.

Until the decision of the Court of Appeals in this case, it seemed to have become settled law that the correct approach for damages for lost profits on unpatented items, where those damages were proximately caused by infringing sales of patented items, was the "entire market value rule." Under that rule, where closely related unpatented items are designed for use with the patented items and where the value to the patentee from the sale of the patented items as a commercial reality includes the sale of the materials used with the patented items, the patentee is entitled to recover damages as to both the patented and unpatented items.

The leading case on the entire market value doctrine is *American Safety Table Company v. Schreiber*, 415 F.2d 373 (2d Cir. 1969), *cert. denied*, 396 U.S. 1038 (1970). *American Safety Table* involved a patented die assembly and certain unpatented tables. The patented assembly, which rested on an unattached table or frame, could be removed from the unpatented tables and replaced by another die. The die assembly and the tables were commonly sold in conjunction with each other but were sometimes sold separately in the market. The patented assembly and the unpatented table were used together to perform the desired work.

As noted by the Second Circuit:

> "The master and district court found that the unpatentable table was 'useless' and 'unmarketable' without the patented die assembly. On this basis the entire market rule was applied in awarding damages for the sales of all tables." *Id.* at 377.

The Second Circuit agreed that the entire market value rule was properly applied. *Id.*

The entire market value rule was recently reaffirmed in a case involving unpatented supplies used with patented batteries. *Leesona Corp. v. United States*, 599 F.2d 958 (Ct. Cl. 1979), *cert. denied*, 444 U.S. 991 (1979). There, the plaintiff was the patentee and manufacturer of a patented rechargeable battery, which was used for military purposes. The battery was recharged by replacing its 22 unpatented anodes. It was estimated that, in order to make the battery usable for military purposes, the 22 unpatented anodes and the unpatented cathodes and blower covers would be frequently replaced during the battery's lifetime.

The government purchased 2,138 batteries and the anodes, cathodes and blower covers from a third party, and Leesona sued the government for patent infringement. At issue was the question of the reasonable compensation to

be paid Leesona under 28 U.S.C. § 1498. The government argued that the anodes, cathodes and covers, as unpatented supplies, should be excluded from the compensation base, while Leesona argued that they should be included under the entire market value rule since such supplies were necessary for the battery's operation.

In discussing the entire market value rule, the Court observed:

> "Under the market value rule, it is not the physical joinder or separation of the contested items that determines their inclusion in or exclusion from the compensation base, *so much as their financial and marketing dependence on the patented item under standard marketing procedures for the goods in question.*" 599 F.2d at 974. (Emphasis added.)

The *Leesona* court noted that the design of the battery was such that each of the 22 anodes for each patented battery would probably be replaced 50 times during the "life cycle" of the battery. *Id.* at 975. Also, as with the unpatented supplies in this case, the supplies in *Leesona* "were designed to operate in conjunction with" the patented item. *Id.* Compensation for the supplies was thus allowed.

A number of other courts have endorsed the *American Safety Table* approach to the entire market value rule. *See Paper Converting Mach. Co., Inc. v. FMC Corp.*, 432 F. Supp. 907 (E.D. Wis. 1977); *Peterson Filters & Engineering Co. v. Envirotech Corp.*, 178 U.S.P.Q. 337 (D. Utah 1973); *Jenn-Air Corp. v. Penn Ventilator Co., Inc.*, 185 U.S.P.Q. 410, 418 (E.D. Pa. 1975). *See also Electric Pipe Line v. Fluid Systems*, 250 F.2d 697 (2d Cir. 1957).

The sales and profits that Velo-Bind lost on supplies as a direct result of the infringing activities of 3M fall squarely within the ambit of the entire market value rule. The sale of a Velo-Bind machine carries with it a substantial revenue stream in the form of continuing sales of sup-

plies, principally strips, for use in the machines. These supplies are specially made for use in the machine. They have little or no market value in the absence of the patented machines, yet are essential to the binding of books and documents on the machines.

It is a fact of the marketplace that Velo-Bind is the sole supplier of the strips used with its binding machines. Thus, when 3M takes a machine sale away from Velo-Bind, it also takes away a continuing series of profitable sales of strips because instead of buying Velo-Bind-type strips, the purchaser of a 3M machine buys 3M-type strips manufactured by 3M. Those are the commercial realities. The entire market value doctrine rests on commercial realities. Under the entire market value doctrine, Velo-Bind is entitled to recover from 3M the profits it lost on supplies sales. This recovery is essential in order even to attempt to restore Velo-Bind to the pecuniary position it would have been in absent 3M's infringement.

3M may contend that this case is not in conflict with the modern, just rule of *American Safety Table* and *Leesona*, because this case can be distinguished. Analysis, however, shows that this case cannot be reconciled with *American Safety Table* and *Leesona*.

The Ninth Circuit in this case in a murky passage suggested that Velo-Bind's request for supplies damages was "very similar" to patent misuse. The Court apparently meant that seeking damages for unpatented supplies was similar to Velo-Bind conditioning the sale of patented machines upon the purchase of unpatented supplies only from it, that is, unlawful "tying."[9] That is not at all correct, however. Not even 3M has ever suggested that Velo-Bind tied the sale of its strips or other supplies to the sale of its machines.

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[9]This misconception had its genesis with *Autographic Register Co. v. Sturgis Register Co.*, 110 F.2d 883 (6th Cir. 1940), a case relied upon by the Ninth Circuit.

It is true that Velo-Bind could not provide *absolute* assurance that it would have sold all of the supplies projected in its damages evidence, unless it compelled purchasers of its machines to buy supplies from it. Velo-Bind did not take the position, however, that it was inconceivable that sometime in the future somebody might decide to manufacture Velo-Bind-type strips and sell them to owners of Velo-Bind machines, thereby reducing the strips revenues and profits projected from the sale of each machine. But to admit that possibility was not inconsistent with Velo-Bind's burden in proving damages. It did not have to prove its supplies damages with absolute certainty.[10] It merely had to provide a reasonable estimate based on logical, plausible premises supported by evidence, and that it did. It was certainly reasonable for Velo-Bind to project that it would continue to sell strips and other supplies at the same rate per machine as it had in the past—or to put it another way, that it would continue to be the sole manufacturer and seller of strips usable in its machines, as it had been for many years, even though it was conceivable that someone else would later enter the market.

Once that is understood, it becomes clear that patent misuse could not possibly be an issue in this case.

What is important in assessing whether a conflict in the circuits exists, however, is that, if the "patent misuse" criticism were valid, it would be equally applicable to *American Safety Table, Leesona* and the other cases enunciating the entire market value rule. The courts in those cases, though, did not even mention patent misuse, ob-

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[10]The standard to be met is set forth in *Bigelow v. R.K.O. Pictures*, 327 U.S. 251, 265 (1946), and *Livesay Window Company v. Livesay Industries*, 251 F.2d 469, 472 (5th Cir. 1958). Such standard requires the infringer to bear the risk of uncertainty created by his conduct and does not require the patentee to prove its losses with "scientific accuracy."

viously because they correctly concluded that awarding damages in accordance with the entire market value rule did not explicitly or implicitly condone patent misuse.

The existence of a conflict between *American Safety Table* and *Leesona*, on the one hand, and this case, on the other, is further demonstrated by the effort of the Ninth Circuit to distinguish the entire market value cases. That effort is based on the supposed fact that *American Safety Table* and *Leesona* involve unpatented parts attached to a patented assembly, not consumable supplies. Putting aside the fact that the purported distinction rests upon a very questionable characterization of the *Leesona* facts, it fails because it is not grounded in logic but is instead wholly artificial.

First, it is impossible to imagine the policy served by allowing a patentee to recover damages for unpatented component parts, unpatented repair parts, and unpatented supplies used in a process patent,[11] while banning recovery for unpatented supplies usable only in conjunction with a patented machine. In each of these cases the inquiry should focus on the substantive injury to the patentee, not merely the form of injury. It is submitted that in each of these cases the injury is substantively identical—loss of sales of unpatented material intended for and usable only with the patented device. It is important that the supplies for which Velo-Bind sought damages are not merely incidental to or remotely connected with the patented binding machine; rather, the supplies, such as the binding strips, are so intimately connected with Velo-Bind's patented machines that they are expressly mentioned in the patents found valid and infringed by 3M.

Second, Congress has prescribed the measure of damages as those "adequate to compensate for the infringement."

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[11] *See Dawson Chemical Co. v. Rohm & Haas Co.*, 448 U.S. 176 (1980).

35 U.S.C. § 284. Commenting on this language, both the Senate Report and the House Reports stated that it was the intention of Congress "to make the basis of recovery in patent-infringement suits . . . *any* damages the complainant can prove." (Emphasis added.) H.R.REP. NO. 1587, 79th Cong., 2d Sess. 1-2 (1946); S.REP. NO. 1503, 79th Cong., 2d Sess. 2 (1946). The legislative purpose—to compensate the injured party for all damages proximately caused by the tortious conduct of the infringer—is obvious. The standard, of course, is hardly new, and, in fact, is the general standard for measuring damages caused by tortious conduct. There is no support for the proposition that the legislative purpose would be served by excluding damages for unpatented supplies usable only with the patented device from coverage under the patent laws, so long as those damages are adequately proven.

The Court of Appeals added three make-weight arguments for its conclusion. First, it suggested that the entire market value rule was an exception to a more general rule that, where a patent creates only part of the infringer's profits, recovery is limited to that part of the profits, which must be apportioned between those created by the patent and those not so created. The Ninth Circuit cited *Westinghouse Electric & Mfg. Co. v. Wagner Electric & Mfg. Co.*, 225 U.S. 604, 614-15 (1912). There, however, the Court of Appeals was confused between the former law that permitted the patentee to recover the infringer's profits, and the present law, under which Velo-Bind proceeded, that allows the patentee to recover his own lost profits. As cogently stated by White in his patent law treatise: "[T]he justification for allocating or apportioning the infringer's profits has no application when the award is based on the patent owner's lost profits. The patent owner can be made whole only by awarding the profits which the evidence shows he would have made in the absence of the infringer's unlawful activities." 3 White, *Patent Litigation: Procedure*

& Tactics, pp. 9-25 to 9-26. Furthermore, "apportionment" would have been equally easy in *American Safety Table* and *Leesona,* but there the courts recognized that it would have been unjust to award the patentee only a portion of his lost profits.

Second, the Ninth Circuit suggested, without citation of case law, that lost supply sales "would appear" to be "similar" to indirect consequential damages that are not recoverable. The same, however, could have been said about *American Safety Table* and *Leesona.* These supplies damages, in fact, were clearly foreseeable and immediate.

Third, the Court of Appeals suggested that Velo-Bind's supplies damages might be speculative. In doing so, it overlooked the fact that, for the period from when 3M commenced its infringement in 1975 through the trial, Velo-Bind conclusively established that it was the only supplier of strips and other supplies for its binding machines. The damages through the middle of 1978, when the trial took place, were not based on a mere *assumption* that Velo-Bind would continue to be the sole supplier of its strips, but were based upon the *proven fact* that Velo-Bind was the only supplier. As to these amounts, a total of $229,072 (see Pl.Ex. 194), the supplies damages are not even arguably conjectural.

As to the remaining supplies damages, those not yet incurred at the time of trial, Velo-Bind provided reasonable projections based upon historic sales, as described in the testimony of highly qualified witnesses.[12] 3M presented not a shred of evidence to rebut Velo-Bind's proof. (In fact, to this date Velo-Bind remains the sole supplier of its strips.)

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[12]That was more than adequate to meet the burden of a patentee in establishing damages for infringement. See footnote 10, *supra.*

The Court of Appeals suggested that Velo-Bind's projection of future lost supplies profits might be speculative because:

> "Those who continue to use the 3M machine may be subject to suit for infringement; those who supply or maintain them may be subject to suit for contributory infringement."

Velo-Bind, however, believes that any attempt to stop the use of the outstanding machines would be met by 3M asserting the rule of *Wagner Sign Service v. Midwest News Reel Theatres,* 119 F.2d 929 (7th Cir. 1941), *appeal dismissed* (pursuant to stipulation) 314 U.S. 702 (1941), as follows:

> "[I]t is the generally accepted doctrine that where a patentee has been fully compensated by an infringing manufacturer for the manufacture and sale of the infringing device, the patentee has no recourse against a customer of such infringing manufacture who is solely a user of such device. As was stated in Union Tool Company v. Wilson, 259 U.S. 107, 113, 42 S.Ct. 427, 429, 66 L. Ed. 848: '* * * A patentee, in demanding and receiving full compensation for the wrongful use of his invention in devices made and sold by a manufacturer adopts the sales as though made by himself, and therefore necessarily licenses the use of the devices, and frees them from the monopoly of the patent. * * *' " 119 F.2d at 930.[13]

The question is whether Velo-Bind will obtain all of its foreseeable damages proved with reasonable certainty, or only a minor fraction of such damages. The Ninth Circuit held that the courts are powerless to give judgment for more than a small fraction of Velo-Bind's total damages.

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[13]Indeed, the District Court in this case expressly ordered that its injunction was inapplicable to 3M's sales of strips.

American Safety Table and *Leesona* reject that obviously unjust result. We submit that the Supreme Court should decide which line of authority should govern.

B. This Case Presents an Important, Unresolved Question of Federal Law.

It is beyond dispute that patent law, which is expressly provided for in the Constitution (Art. I, Sec. 8) and occupies an entire title of the United States Code (Title 35), is an important area of federal law. The rules governing the award of damages for patent infringement, of course, are correspondingly important. We submit that it follows that the question of whether a patentee will get only a quarter of its actual damages, or will instead be made whole in accordance with the usual legal standard, is an important question of federal law.

It is important not only because of the subject matter, but equally because of the principle involved. It is clear that the decision of the Ninth Circuit tells 3M, the deliberate infringer, "You may keep your supplies profits, the motivation for your infringement in the first place. As a result, 3M, you are better off having infringed than you would have been had you chosen to respect Velo-Bind's patents." And the decision in substance tells the victim, Velo-Bind, "Because of the artificial barrier which we have constructed to prevent damages for profits from lost supplies sales, you can never be made whole for the injury that 3M has done you, no matter how certainly you prove the existence of your losses."

Accordingly, to the degree that the issue is an open question, it is clearly an important issue of federal law which has not been, but should be, settled by the Supreme Court.

II
TREBLING AND ATTORNEYS' FEES

Section 284 of the Patent Law (35 U.S.C. § 284) authorizes the imposition of treble damages (or lesser increased

damages) but contains no standards on which the court should base an exercise of its discretion. Section 285 (35 U.S.C. § 285) permits an award of attorneys' fees to the prevailing party, but it, too, lacks any expressed standards other than that the case be "exceptional."

Courts have attempted to justify awards of increased damages and attorneys' fees, or non-awards, upon the basis of facts found in the particular cases. Some of those cases from other circuits seem to be in conflict with this case. When courts talk in terms of facts, however, rather than defined legal principles, it is always easy to distinguish a particular precedent because this fact was mentioned or that fact was absent.

It is probably more realistic to conclude that no generally agreed, comprehensive set of standards has ever been announced. Certainly, none has been announced by the Supreme Court, which has never even considered either question, increased damages or attorneys' fees, in a patent context. There is an obvious need for the Supreme Court to confront the question of what it takes to justify increased damages and attorneys' fees—and what it takes to justify their denial. Lower courts need such guidance, and they should be required to make findings of fact so that it can be ascertained whether they have in fact followed the applicable standards. Judicial discretion, without clear standards as to how that discretion is to be exercised, may be expected to degenerate into judicial whim.

A. The Standards to Be Applied in Trebling or Otherwise Increasing Damages or Declining to Do So and in Awarding Attorneys' Fees or Declining to Do So Involve Important Questions of Federal Law Which this Court Should Settle.

Most of the factors that have been considered as controlling or important in increasing damages or awarding attorneys' fees, as well as several others not mentioned in the cases but which ring an equitable bell, exist in this case:

1. In 1971, 3M conducted a review of Velo-Bind's patent claims and did not suggest that there was anything wrong with them, but instead sought a license from Velo-Bind. Later, when it was sued, 3M changed its position, and charged that the claims were invalid.

2. In 1974, when it was deciding whether to sell the infringing machine, 3M did not obtain an opinion of outside, independent counsel. (This was considered to be a very important factor in *General Electric Company v. Sciaky Bros., Inc.*, 415 F.2d 1068, 1073 (6th Cir. 1969).) One of 3M's inside counsel, Smith, testified many years later that he gave an oral opinion of non-infringement, but his written opinions said no such thing.

3. Rally/Ro-Bind obviously recognized the serious risk of infringement by expressly refusing to represent that its machine would not infringe Velo-Bind's patent.

4. 3M and Rally/Ro-Bind in "hotly contested" negotiations over a merger agreement each sought to saddle the other with as much responsibility for the legal consequences of infringement as possible. Tr. 2583:16-2584:16; Pl.Ex. 1699, § 1.05(h), p.6, and Exhibit D thereto. (This fact, particularly in context with others in this list, suggests a willful infringement, justifying increased damages and attorneys' fees. *See, e.g., Coleman Company v. Holly Manufacturing Company*, 269 F.2d 660, 666 (9th Cir. 1959). *Even by 3M's characterization*, it deliberately chose to manufacture and sell the competing machine, knowing that to do so at least might constitute infringement.)

5. Velo-Bind was a particularly vulnerable patentee, since its entire product line depended upon the protection of the patents which were infringed. (*See St. Regis Paper Co. v. Winchester Carton Corp.*, 410 F.Supp. 1304, 1309 (D. Mass. 1976), for a statement that the relative sizes of the parties is important.)

6. Although 3M lost a summary judgment motion, two motions for a directed verdict and then the jury verdict, its policy of infringement remained unchanged. 3M went right on infringing and did not even seek an outside legal opinion until the eve of judgment. Of course, when it finally obtained an independent, outside opinion, it stopped. (3M's actions during that period of several months demonstrate that it always had a reckless disregard of Velo-Bind's rights—amounting to willfulness.)

7. 3M, which had the wealth to finance below-cost, predatory prices, did just that with its infringing machine, expecting to make big profits on sales of strips used with its machine.[14]

8. The District Court directed a verdict on fraud and unclean hands and correctly regarded 3M's anticipation defense as stretching credulity. (The assertion of spurious defenses has been held to be an important factor.[15] *See, e.g., Overman Cushion Tire Co. v. Goodyear Tire & Rubber Co.*, 66 F.2d 361, 362 (2d Cir. 1933), *cert. denied*, 290 U.S. 681 (1933).)

Perhaps the most significant single factor is the final one. It is a factor that by its nature was not and could not have been considered by the District Court, since it became a factor only when the Court of Appeals rendered

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[14]This is not the first time that 3M has demonstrated a wanton disregard for the legal rights of much smaller competitors. *See, United States v. Minnesota Mining & Mfg. Co.*, 1969 Trd. Cas. ¶ 72,865 (N.D. Ill. 1969); *United States v. Minnesota Mining & Mfg. Co.*, 249 F.Supp. 594 (E.D. Ill. 1966).

[15]None of these so-called defenses involved even an arguably "close question." Since the evidence was overwhelming that there was a literal, bullseye infringement, we submit that even that question should not be regarded as close. In any event, there is no justification for resolving allegedly close questions in favor of taking a chance on infringement.

its decision, chopping away three-quarters of the jury's verdict and the District Court's judgment. It is this:

9. Velo-Bind clearly was not compensated for approximately three-quarters of its actual damages because the Court of Appeals concluded that the courts are powerless to award damages for lost profits on unpatented supplies, even though such damages are foreseeable and proved. If the decision of the Court of Appeals on supplies damages stands, Velo-Bind can be made nearly whole only by permitting the District Court to increase the judgment pursuant to Sections 284 and 285. (It has been held that the inadequacy of compensatory damages to compensate a patentee fully is an important factor to be considered in exercising discretion to grant or deny increased damages and attorneys' fees. *Armstrong v. Emerson Radio & Phonograph Corp.*, 132 F.Supp. 176, 179 (S.D.N.Y. 1955).)

It is clear from the authorities cited above that the District Court *could* have awarded increased damages and attorneys' fees. Velo-Bind submits that under the same authorities it was an abuse of discretion not to. If that is so, the Ninth Circuit is at odds with other circuits. What is more important, however, is that even if this decision can be reconciled with the *language* of the cases we have cited, there exists a situation where, within a very broad spectrum of possible facts, each court may exercise its own whim. If the Supreme Court were to announce the standards under which lower courts should exercise their discretion, that spectrum would be narrowed. As a result, application of Sections 284 and 285 would become more uniform and predictable in an area of considerable importance in federal law.

B. Certiorari Is Appropriate to Determine the Unresolved and Important Issue of Whether Fed.R.Civ.P. 52(a) Requires Findings of Fact on Issues Which Are Raised by Motion But Tried as Questions of Fact.

As is apparent from the immediately preceding section, a major disputed issue, on which extensive testimony and evidence were presented both at the trial and at a post-trial evidentiary hearing, was the degree of 3M's culpability. Velo-Bind's right to recover increased damages and attorneys' fees turned on the District Court's resolution of that important issue. However, in denying Velo-Bind's motions for attorneys' fees and increased damages, the trial court made no findings of fact. Indeed, even its holding of law was couched in the most conclusory terms: "The Court . . . finds no sufficient equitable reason to justify the increase in damages or the award of attorneys fees." Although the issue of whether the District Court erred by failing to make findings of fact was presented on appeal, including Velo-Bind's petition for rehearing, the Court of Appeals ignored it.

Whether the standards for the exercise of discretion under Sections 284 and 285 are to be loose, vague and conflicting as they now are, or clear and coherent, as we have urged this Court to make them, there must be findings of fact if appellate courts are to conduct meaningful reviews of trial court decisions. Unfortunately, however, the law is unsettled as to whether findings of fact are required where triable issues of fact are raised by motion. The question is one which has troubled courts and commentators since Federal Rule of Civil Procedure 52(a) was amended in 1946. *See* 5A Moore's Federal Practice ¶ 52.08 at 2734-35.

Prior to 1946, decisional law had firmly established that Rule 52(a) "requires findings 'in all actions *tried upon the facts,*'" *Thomas v. Peyser,* 118 F.2d 369, 374 (D.C. Cir. 1941) (emphasis added to Rule 52(a) language by *Thomas* court), even where the factual issue had been raised by motion. For example, in *King v. Wall & Beaver Street Cor-*

poration, 145 F.2d 377 (D.C. Cir. 1944), the trial court made findings of fact with respect to defendants' domicile in disposing of Rule 12(b)(3) and Rule 56 motions. The Court of Appeals affirmed this procedure, holding that such findings were "required." *Id.* at 380-81. *See also, Bowers v. E.J. Rose Mfg. Co.,* 149 F.2d 612, 614 (9th Cir. 1945), *cert. denied sub nom. Fisher v. Bowers,* 326 U.S. 753 (1945) (Rule 12(e) dismissal reversed because there was no finding by court of the ultimate fact upon which default judgment based); *Perry v. Baumann,* 122 F.2d 409, 410 (9th Cir. 1941) (dismissal without findings of fact held improper).

After reviewing the case law antedating the 1946 amendment, Professor Moore concludes that Rule 52(a) should not be read as eliminating the requirement that findings of fact be made explicit where such findings are a necessary predicate to disposition of motions:

> "Although the literal language of the 1946 amendment stating that findings are unnecessary on decisions of motions under Rule 12 may obviate the [*King* decision, *supra*] . . . , we do not believe that it should for two reasons. The 1946 amendment should be read in conjunction and harmonized with the earlier provision of the Rule requiring findings in all actions 'tried upon the facts'; and the reasons for findings of fact are equally pertinent to this proceeding."

5A Moore's Federal Practice ¶ 52.08 at 2738-39 (footnotes omitted); *see also,* 9 Wright & Miller, Federal Practice and Procedure: Civil § 2575 at 694.

A number of courts have agreed with Professor Moore's position that Rule 52(a) must be read in light of judicial precedent as requiring that necessary findings of fact be made explicit. In the very recent case of *Williamson v. Tucker,* 645 F.2d 404 (5th Cir. 1981), for example, the trial court had decided complex Rule 12 and Rule 56 motions

without findings of fact. The Fifth Circuit noted that it "need not decide whether the district courts are required to make findings of fact whenever a decision of a motion is based on a factual determination," since the record in that case could not "be construed in any way so as to support the action taken by the district court . . . ." 645 F.2d at 411. However, it did suggest that Rule 52(a) is properly interpreted as requiring such findings:

> "The findings required by Fed.R.Civ.P. 52(a) serve three important purposes: they aid the appellate court by helping it to understand the basis of the trial court's decision; they clarify the precise issues which are decided by the court . . . ; and they insure care on the part of the trial judge in ascertaining the facts. All three of these purposes are served whenever the district court makes a decision on the basis of factual determinations, even when that decision is on a motion under Rule 12."

645 F.2d at 411, n. 3 (citations omitted). *See also, Hobbs & Company, Inc. v. American Investors Management, Inc.*, 576 F.2d 29, 36, n. 22 (3d Cir. 1978); *Horizons Titanium Corp. v. Norton Co.*, 290 F.2d 421, 424, n. 3 (1st Cir. 1961).

The problem of whether Rule 52(a) requires findings of fact on issues of fact raised by motion, and the inability of the appellate courts to provide adequate review without such findings, are concerns which have generated scholarly opinions,[16] concurrences,[17] and dissents[18] for decades. The

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[16]*See* cases cited *supra*, and *see American Cyanimid Company v. Sharff*, 309 F.2d 790, 798 (3d Cir. 1962).

[17]*See* the concurring opinion of Burger, J., in *Von Der Heydt v. Rogers*, 251 F.2d 17, 19-20 (D.C. Cir. 1958) (findings of fact were required on a dismissal for failure to comply with discovery orders by reason of Rule 41(b)).

[18]*See Lea v. Cone Mills Corp.*, 467 F.2d 277, 279 (4th Cir. 1972) (Winter, J., dissenting) (expressing "serious doubts that Rule 52(a), F.R.Civ.P., does not require findings of fact and conclusions

issue is squarely presented by the facts of this case, and petitioner respectfully submits that certiorari should be granted to review the failure of the trial court to render findings of fact on petitioner's motions for increased damages and attorneys' fees.

CONCLUSION

The decision of the Ninth Circuit denying supplies damages is conceptually unsound and in conflict with the decision of at least one other circuit and the Court of Claims.

As it pertains to awards of increased damages and attorneys' fees, the decision appears to be in conflict with the decisions of other circuits and would unquestionably be so were it not for the failure of most cases to announce a clear, meaningful rule for when such awards are to be granted and when they are to be denied, a void which the Supreme Court should fill. Moreover, the failure of the Court of Appeals to require findings of fact raises a fundamental question transcending patent law, a question upon which the Supreme Court has not spoken.

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of law by the district court in this case, notwithstanding that the judgment for payment of counsel fees was requested by motion"); *Interpace Corp. v. City of Philadelphia*, 438 F.2d 401, 404-405 (3d Cir. 1971) (Adams, J., dissenting) (expressing agreement with Moore's view on Rule 52(a)).

Velo-Bind therefore submits that a writ of certiorari should be granted as to both of the issues presented by this petition. The decision with respect to supplies damages is so clearly in error that Velo-Bind respectfully suggests that this Court should consider summary reversal.

Respectfully submitted,

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October 7, 1981

(Appendices follow)

Appendix A

Velo-Bind, Incorporated, a California Corporation,
Plaintiff-Appellant,

v.

Minnesota Mining & Manufacturing Company,
a corporation; 3M Business Products Sales, Inc.,
a corporation; Ro-Bind Corporation, a corporation;
Rally Industries, a corporation; and Joe D. Giulie,
Defendants-Appellees.

Velo-Bind, Incorporated, a California Corporation,
Plaintiff-Appellee,

v.

Minnesota Mining & Manufacturing Company,
a corporation; 3M Business Products Sales, Inc.,
a corporation; Ro-Bind Corporation, a corporation,
and Rally Industries, a corporation,
Defendants-Appellants.

Velo-Bind, Incorporated, a California Corporation,
Plaintiff-Appellee,

v.

Minnesota Mining & Manufacturing Company,
a corporation; and 3M Business Products Sales, Inc.,
a corporation, Defendants-Appellants.

Nos. 79-3338, 79-4448 and 79-4584.

United States Court of Appeals, Ninth Circuit

Argued and Submitted July 8, 1980.

Decided June 8, 1981.

Appeal from the United States District Court for the Northern District of California.

Before DUNIWAY, SNEED and POOLE,
Circuit Judges.

DUNIWAY, Circuit Judge:

In No. 79-4448 appellants (hereinafter 3M) appeal from the district court's judgment, entered following a jury trial, finding that the 3M Model 1000 binding machine infringes three valid patents owned by Velo-Bind, awarding damages to Velo-Bind of $3,934,333 plus interest, and permanently enjoining 3M from infringing the patents. We affirm in part and reverse in part.

In No. 79-4584 3M further appeals from the district court's refusal to modify the injunction so as to specifically exempt 3M's proposed 1000DA binding machine from its terms. We affirm.

In No. 79-3338 Velo-Bind cross-appeals from the district court's refusal to award treble damages and attorney's fees. We affirm.

I. *Facts.*

In 1966, William Abildgaard and Charles Groswith formed what is now Velo-Bind for the purpose of inventing a new system of binding books and documents. After several false starts, they succeeded in 1968 in inventing a strip binding machine. Simply stated, this machine forms a bind by placing on either side of the pages to be bound, and then compressing, a male plastic strip with nail-like studs and a female plastic strip with holes corresponding to the studs.

The machine which Velo-Bind eventually developed for sale joins the two strips to form a lasting bind through the use of a "hot knife" process. In this process, once the strips are pressed together with the studs from the male strip projecting through the holes in the female strip, a hot knife or shear cuts off the excess length of the studs leaving heat softened stud ends. These malleable ends are then deformed into rivets by the striking action of heading arms. The rivet heads quickly cool creating a permanent bind.

Desiring to manufacture and market its invention but short of capital, Velo-Bind entered into negotiations with 3M in 1971. When these negotiations ended without an agreement, Velo-Bind proceeded on its own, eventually manufacturing several models of its by then patented strip binder, all of which employed the hot knife system.

3M also proceeded on its own. In 1975, 3M began selling its Model 1000 binding machine. Although a strip binding machine similar in structure to Velo-Bind's, 3M's machine forms its bind by means of ratchet teeth on the studs of the male strip, engaged and held in place by friction-locking blocks in the female strip. Thus there is no need to heat the stud ends in order to form rivets, and the excess length of the studs is removed by a cold knife.

Velo-Bind brought suit claiming infringement of three of its patents—claims 1, 2, and 3 of patent No. 3,608,117 for Machine for Binding and Punching Sheets (hereinafter the '117 patent); claims 1 and 7 of patent No. 3,756,625 for Method and Apparatus for Binding Books (hereinafter the '625 patent); and the design patented in

patent No. DES 227,195 for Machine for Binding Books (hereinafter design '195). Because claims 2 and 3 of the '117 patent and claim 7 of the '625 patent are dependent upon claim 1 of their respective patents, and because the design patent concerns only the outward appearance of the machine and only $250 in damages, the two claim 1's became the focus of the litigation.

At trial Velo-Bind presented extensive testimony by an expert witness, Harris Zimmerman. 3M did not counter with an expert of its own, nor did it challenge Zimmerman's qualifications. The jury found that each patent claim in issue was both valid and infringed, and awarded damages to Velo-Bind that included not only lost profit on the sale of the machines but also lost profit on the sale of unpatented paper, plastic strips, and book covers. The district court refused to overturn this verdict and further enjoined 3M from future infringements, without exception for 3M's proposed 1000DA model.

In these appeals 3M argues as a matter of law that there was no infringement, that Velo-Bind's patents are invalid, that the jury's damage measure was improper, and that 3M was entitled to a ruling that its proposed Model 1000DA did not infringe Velo-Bind's '117 and '625 patents. Velo-Bind cross-appeals from denial of treble damages and attorney's fees.

II. *Infringement.*

3M argues that its Model 1000 does not infringe Velo-Bind's patent claims as a matter of law, and thus that it was entitled to a judgment in its favor. The gist of 3M's argument is that when properly construed, Velo-Bind's

mechanical patent claims refer only to a machine employing the hot-knife process. We disagree.

Claim 1 of the '117 patent describes a strip binding machine as follows:

> Apparatus for binding sheets together with the use of a first strip, a plurality of studs projecting from and spaced longitudinally relative to said first strip and a second strip formed with apertures spaced longitudinally of said second strip at intervals complementary to said studs, said apparatus comprising a frame having means shaped to receive one said strip, a platen table adjacent said means to support apertured sheets, a pressure foot formed to engage the other of said strips, cooperating means on said frame and said pressure foot to move said pressure foot toward said first-mentioned means to bring said strips together with said studs projecting through said apertures, and shear means to cut off the ends of said studs projecting through said second strip.

Claim 1 of the '625 patent is much the same although it refers to a "cutting means" instead of a "shear means" to cut off the stud ends.

Recognizing that the literal language of either claim 1 covers its Model 1000, 3M seeks to limit the claims by reading into them both a hot knife and the hot knife binding process. 3M correctly argues that the use of "means" terminology brings into play 35 U.S.C. § 112. Under this section where a claim uses "means" language, "such claim shall be construed to cover the corresponding structure, material, or acts described in the specification and equivalents thereof." 3M argues that since the specifications must be referred to, and since they describe a hot

knife or shear, each claim 1 must therefore be read to include a hot knife and the hot knife binding process thus excluding 3M's cold knife machine from its terms.

In making this argument 3M looks only to one part of the specifications—the general description of the hot knife process preceding the claims. The claims themselves, however, are also part of the specifications. 35 U.S.C. § 112. And looking to the other claims, including those not at issue, it appears that by "shear means" or "cutting means" neither claim 1 refers only to a heated knife. For example, claim 4 of the '117 patent refers to "a plurality of blades . . . *and heating means* to heat said blades." (emphasis added). Claim 9 of the same patent describes an "[a]pparatus . . . which *further* comprises *heating means* to heat said shear means . . . ." (emphasis added). In view of the other claims in the two patents, it appears both that the failure of either claim 1 to specify a hot knife was deliberate and that in any event a "shear means" or "cutting means" and a "heating means" are different structures.

More importantly, 3M's argument of noninfringement assumes that *if*, by "shear means" or "cutting means" and the application of section 112, claim 1 of either patent must have reference to a hot knife, then it must also be understood to refer only to the hot knife *binding process*. Such an assumption is unwarranted. Neither claim 1 makes any reference to the hot knife binding process, and the description of this process in the specifications does not limit the claims. *Smith v. Snow*, 1935, 294 U.S. 1, 11, 55 S.Ct. 279, 283, 79 L.Ed. 721, ("the claims of the patent, not its specifications, measure the invention.").

Moreover, this assumption finds no support in section 112, which requires only that shear or cutting "means" be construed in light of the "*corresponding* structure, material or acts" in the specifications; it does not require that the claim be further limited to the description in the specifications. Nor can it be argued that the hot knife binding process—as opposed to a hot knife—is the "corresponding structure material or acts" of the shear or cutting means referred to in the claims. The shear or cutting means, whether hot or cold, function simply to cut off the stud ends. The process of creating a permanent bind, whether by friction fit strips, ratchet teeth on the male studs, or formation of rivet heads, is a separate matter. 3M showed as much in its cross-examination of Zimmerman:

> Q. . . . Now, what is the function which the shear means provides in the patented machine?
>
> A. The function is to enable the machine to accommodate the different thicknesses of bound volumes.
>
> Q. And the function is to cut off the ends of the studs, is it not?
>
> A. That's correct.

Without the assumption that the hot knife and the hot knife binding process are the same, 3M's contention that "shear means" or "cutting means" refers to a hot knife is of little significance. Even if either claim 1 were understood to describe a hot knife to cut off the studs, certainly a cold knife used to perform the same function would be covered by the claim, if not literally, then under the doctrine of equivalents. *See Graver Tank & Mfg. Co., Inc. v. Linde Air Products Co.*, 1950, 339 U.S. 605, 608-609, 70

S.Ct. 854, 856-857, 94 L.Ed. 1097. Zimmerman gave uncontradicted testimony that "anyone skilled in just about any . . . mechanical art would know that if you cut something . . . you do it faster, probably less noisy and less pressure required to cut with a hot blade or a hot knife. Only anyone that has the skill of any kind in the art knows that you can also cut with cold knives."

In short, because neither claim 1 is limited to the hot knife binding process, whether the knife is hot or cold is immaterial. There is infringement either way.

3M makes several other arguments against a finding of infringement, none of which is convincing, First 3M argues that Velo-Bind's advertising and other corporate statements indicate that it understood the patent and the actual invention to be limited to a hot knife binding process. Even if probative of the scope of claim 1, however, these statements were contradicted by other evidence in the record as to Velo-Bind's intention. The jury's implicit finding of fact that these corporate statements did not define the scope of Velo-Bind's invention or understanding was reasonable and was supported by substantial evidence. Moreover, an inventor's decision to manufacture and market one embodiment of his invention obviously does not limit the patent to that embodiment. *Continental Paper Bag Co. v. Eastern Paper Bag Co.*, 1908, 210 U.S. 405, 418, 28 S.Ct. 748, 751, 52 L.Ed. 1122.

Second, 3M argues that because Velo-Bind did not assert the doctrine of equivalents at trial it may not do so here. But the trial court instructed the jury on this doctrine, and in any event, "[a]n appellee may defend a judgment on

any ground consistent with the record." C. Wright, Law of Federal Courts, § 104, p. 523 (3d ed.).

Finally, 3M argues that Velo-Bind conceded that the cold knife was not equivalent to a hot knife. 3M bases this argument on Velo-Bind's failure to charge infringement of those claims specifying a hot knife and on Groswith's testimony in which he "guessed" that Velo-Bind had not charged 3M with infringing claim 4 of the '117 patent because 3M's machine "doesn't have heating means to heat the blades." But neither of these facts amounts to a formal concession of no infringement. And even were we to agree that Velo-Bind had conceded no infringement of claims such as claim 4 of the '117 patent, it does not follow that there was no infringement of claim 1. "[A] patentee's broadest claim can be no broader than his actual invention," *Kemart Corp. v. Printing Arts Research Laboratories,* 9 Cir., 1953, 201 F.2d 624, 633, but Velo-Bind's "actual invention" included not only a machine using the hot knife *process*—e.g., claim 4—but also a machine preparing sheets for strip binding no matter how the bind was to be secured, e.g., claim 1. Thus the rule, also stated in *Kemart Corp., supra,* "that in interpreting a series of claims, a limitation not present in one may not be implied where the same limitation appears in later claims," is applicable here.

Thus we affirm the finding of infringement of Velo-Bind's mechanical patents '117 and '625. However, we cannot accept the jury's finding of infringement of Velo-Bind's design '195. Having examined the design '195 and the infringing machine, we conclude that the designs are

not so substantially the same "in the eye of an ordinary observer . . . such as to deceive such an observer." *Sun Beam Lighting Co. v. Pacific Associated Lighting, Inc.*, 9 Cir., 1964, 328 F.2d 300, 301. The jury's finding to the contrary was not supported by substantial evidence.

III. *Validity.*

3M argues that Velo-Bind cannot have it both ways: If Velo-Bind's patents are interpreted to cover more than the hot knife process so as to support a finding of infringement, then these same patents must be held invalid as a matter of law. In particular, 3M argues that if claim 1 of the '117 or '625 patent covers more than the hot knife binding process disclosed in the specifications, it is invalid because it fails to meet the disclosure requirements of 35 U.S.C. § 112, or because it is anticipated by prior art under 35 U.S.C. § 102, or because it would be obvious to someone skilled in the art under 35 U.S.C. § 103.

A. *Validity under 35 U.S.C. § 112.*

35 U.S.C. § 112 requires in relevant part that "[t]he specification shall contain a written description of the invention . . . in such full . . . terms as to enable any person skilled in the art . . . to make and use the same. . . . The specification shall conclude with one or more claims particularly pointing out and distinctly claiming the subject matter which the applicant regards as his invention." 3M argues that because, when read literally and without incorporating the hot knife process, neither claim 1 describes an invention which works—that is, binds books, neither satisfies the disclosure requirements of this section.

3M's argument is without merit. There was evidence at trial that at least one method of securing a bind would be obvious to anyone skilled in the art although not specified by either claim 1. Velo-Bind produced evidence that a machine built according to claim 1 of the '117 patent could bind by use of friction fit strips—the male studs being slightly larger than the corresponding holes in the female strip. Such a machine was demonstrated at trial. In addition, Groswith gave uncontradicted testimony that "any engineer would know that parts can be joined together with friction or what is called interference fit." We take judicial notice that this is correct. The carpenter's nail is very old art indeed.

Moreover, either claim 1 may also be upheld as a subcombination patent that describes a machine which prepares pages for permanent book binding. "It has long been recognized that claims for combinations and also subcombinations may be validly allowed by the patent office . . ., and that a claim need not include all the elements necessary to make up a complete operative device" (citations omitted). *Pursche v. Atlas Scraper and Engineering Co.*, 9 Cir., 1961, 300 F.2d 467, 476 (citing *Deering v. Winona Harvester Works*, 1894, 155 U.S. 286, 302, 15 S.Ct. 118, 124, 39 L.Ed. 153, ("Admitting that additional elements are necessary to render the device operative, it does not necessarily follow that the omission of these elements invalidates the claim, or *that the precise elements described in the patent as rendering it operative must be read into the claim. . . .*" (emphasis added)).

B. *Anticipation and Obviousness.*

3M argues that all of the elements of claim 1 of the '117 and '625 patents were anticipated by other patents, particularly by a patent for a purse making machine known as the Wurzner patent.

We have held that anticipation is a strictly technical defense. *Jones v. Vefo Inc.*, 9 Cir., 1979, 609 F.2d 409, 410. "Unless all of the same elements are found in exactly the same situation and united in the same way to perform the identical function in a single prior art reference there is no anticipation." *Id.*, quoting *Walker v. General Motors Corp.*, 9 Cir., 1966, 362 F.2d 56, 68. Velo-Bind's expert, Zimmerman, gave extensive testimony on direct and on cross-examination differentiating Velo-Bind's patent claims from those of the Wurzner patent and of the many other patents that 3M advanced as anticipating Velo-Bind's claims. He testified, for example, that the Wurzner machine did not provide for a "pressure foot" or "pressure bar" nor for a "means shaped to receive a strip." Indeed, the district judge specifically noted in his memorandum of decision that all of 3M's contentions involving the Wurzner machine "[strain] credulity."

Similarly, we reject 3M's contention that Velo-Bind's mechanical patents—the '117 and '625 patents—were obvious and therefore invalid unless interpreted to include the hot knife binding process. Under 35 U.S.C. § 103 a patent may not be obtained "if the differences between the subject matter sought to be patented and the prior art are such that the subject matter as a whole would have been obvious . . . to a person having ordinary skill in the art. . . ."

In *Graham v. John Deere Co.*, 1966, 383 U.S. 1, 86 S.Ct. 684, 15 L.Ed.2d 545, the Court found that application of § 103 requires several "factual inquiries" into "the scope and content of the prior art . . .; differences between the prior art and the claims at issue . . .; and the level of ordinary skill in the pertinent art. . . ." *Id.* at 17, 86 S.Ct. at 694. The trial court so instructed the jury, and the jury's findings of validity in answer to the court's interrogatories implicitly answered each of these factual questions. *See Control Components, Inc. v. Valtek, Inc.*, 5 Cir., 1980, 609 F.2d 763, 767; see also *Palmer v. Orthokinetics, Inc.*, 9 Cir., 1980, 611 F.2d 316, 319 (precise articulation of *Graham* analysis not necessary where trial court's opinion in context or record reveals *Graham* inquiries were made).

Although the conclusion of validity is ultimately one of law, the jury's findings of fact which underlie this legal conclusion may not be overturned on appeal if supported by substantial evidence. *See Saf-Gard Products, Inc. v. Service Parts, Inc.*, 9 Cir., 1976, 532 F.2d 1266, 1272, *cert. denied*, 1976, 429 U.S. 896, 97 S.Ct. 258, 50 L.Ed.2d 179 (the trier of facts' *"Graham* findings are binding on appeal if not clearly erroneous"). And after reviewing the record before us we find ample support for the jury's conclusion that Velo-Bind's mechanical patents were not obvious. Velo-Bind's expert witness contrasted Velo-Bind's claims with prior art in some detail, and gave his opinion that Velo-Bind's claims were not obvious to a person of ordinary skill in the art. His opinion was buttressed by other evidence in the record, particularly that relating to the brief history of strip binding. This history was one of the "long felt but unsolved needs," failed efforts by both

Abilgaard and 3M, and finally a commercially successful breakthrough. *See Graham v. John Deere Co., supra,* 383 U.S. at 17-18, 86 S.Ct. at 693-694.

Indeed, so convincing is this evidence that even if we must test Velo-Bind's patents under the more rigid scrutiny given to combination patents, see *Penn International Industries v. Pennington Corp.,* 9 Cir., 1978, 583 F.2d 1078, 1081-82, we reach the same conclusion of non-obviousness. The evidence in the record indicates that Velo-Bind's patents produced an unusual or surprising—synergistic—result. *See Speed Shore Corp. v. Denda,* 9 Cir., 1979, 605 F.2d 469, 471; *Kamei-Autokomfort v. Eurasian Automotive Products,* 9 Cir., 1977, 553 F.2d 603, 608.

We therefore conclude that the jury's implicit factual determinations under *Graham* were supported by substantial evidence; the district court's refusal to overturn the jury's finding of validity was not in error. However, because we have found that Velo-Bind's design patent was not infringed, it was error for the district court to enter any judgment as to the validity of this patent. *Mobil Oil Corporation v. Filtrol Corporation,* 9 Cir., 1974, 501 F.2d 282, 293-4.

IV. *Damages*

35 U.S.C. § 284 provides in relevant part that "the court shall award the claimant damages adequate to compensate for the infringement, but in no event less than a reasonable royalty for the use made of the invention by the infringer." Velo-Bind requested and the jury awarded $3,934,333 in damages. Although the jury did not specify

the components of this award, as we read the record, Velo-Bind gave evidence on damages as follows: $645,578 for lost profits on the patented machines including lost sales of machines as well as lost profits on machines that were sold at low prices because of competition with 3M's machines; $268,000 in added costs caused by rushing Model 123 into competition with 3M's machine; and $3,020,725 to compensate for projected lost profits over the eight-year life of a machine on sales of unpatented paper, plastic strips, and book and document covers used in making books. The latter figure includes $415,150 arising from forbearance from price increases on strips which actually sold because of 3M's competition.

3M first argues that those damages based on lost sales of unpatented supplies should not have been awarded as a matter of law. We agree. As Velo-Bind's damage request indicates, Velo-Bind derives the vast bulk of its profits not from the sale of its machine but from the sale of unpatented supplies used in strip binding—paper, plastic strips and book covers. Velo-Bind argues that although it does not unlawfully tie the sale of these unpatented supplies to the sale of its machine, as a matter of commercial reality such supply sales do in fact follow upon the sale of a machine. Velo-Bind urges that if it has provided the jury with adequate evidence that these supply sales would have been made, it must be awarded damages for lost supply sales profits under the statute if it is to be fully "compensate[d] for the infringement." (§ 284).

We hold, however, that damages for lost profits on sales of unpatented, consumable supplies are not contemplated

by the patent law. As in so much of patent law, we observe here the tension between the law's desire to protect the patentee and its desire to preserve competition.

To begin with, we find Velo-Bind's position anomalous. It concedes that it may not tie the sale of unpatented supplies to the sale of machines. To do so would violate the antitrust laws, e. g., *International Salt Co. v. United States*, 1947, 332 U.S. 392, 68 S.Ct. 12, 92 L.Ed. 20; *Rex Chainbelt, Inc. v. Harco Products, Inc.*, 9 Cir., 1975, 512 F.2d 993, 1000-1003. It would also be a misuse of the patent, precluding its enforcement, e. g., *Leitch Mfg. Co. v. Barber Co.*, 1938, 302 U.S. 458, 58 S.Ct. 288, 82 L.Ed. 371; *Rex Chainbelt, Inc., supra.* Yet Velo-Bind's claim for damages comes close to asking the court to give de facto recognition to a tieing relationship which would be illegal.

Velo-Bind also admits that if 3M had deprived Velo-Bind of virtually all of its profits by simply selling strips, paper, and covers to Velo-Bind's customers, without selling the infringing machine, Velo-Bind would have had no claim for relief under the patent laws. Yet Velo-Bind's request for damages is very similar.

The singularity of Velo-Bind's request is further highlighted by examination of the case law it relies upon for support. Velo-Bind argues that cases applying the "entire market value rule" support its position. *American Safety Table Co. v. Schreiber*, 2 Cir., 1969, 415 F.2d 373, 377, quoting *Electric Pipe Line, Inc. v. Fluid Systems, Inc.*, D.C.Conn., 1956, 146 F.Supp. 262, 264, states the rule: "where the entire marketable value of the thing sold is

dependent on the patent, its entire value is included in computing infringement damages." *See also* 8 Walker, Patents (Deller ed. 1973) § 775. But in none of the cases that Velo-Bind cites has the entire market value rule been applied so as to permit recovery of damages for projected lost sales of consumable, unpatented supplies upon which a patented machine works.

In *American Safety Table, supra,* the court permitted recovery of lost profits from an unpatented table on which a patented die assembly was placed. *But see* Judge Hays' dissenting opinion, *id.* at 383. The court adopted the district court's summary of the set of facts that permitted recovery of his damage element: ". . . defendants' infringing sales of machines and assemblies created the market for the sale of tables separate from assemblies. *This situation is thus analogous to that where tables are sold as parts of complete machines.*" *Id.* at 377 (emphasis added.) *Paper Converting Machine Co., Inc. v. FMC Corp.,* E.D. Wis., 1977, 432 F.Supp. 907, 913, is similarly distinguishable. *Electric Pipe Line, Inc. v. Fluid Systems,* 2 Cir., 1957, 250 F.2d 697, awarded damages for infringement of a *process* patent, including lost sales of unpatented component parts of the system. But again the court was not awarding damages for consumable supplies but for the components of a single assembly.

Finally, Velo-Bind relies upon *Leesona Corp. v. United States,* Ct.Cl., 1979, 599 F.2d 958. There, the patent at issue was for a rechargeable battery, and the court awarded damages that included lost sales of unpatented anodes, cathodes, and covers used with the battery. Even so, the

court made clear that it did not view these items as supplies but rather as part of a single package.

These cases do not support Velo-Bind's proposition that damages ought to be awarded for lost sales of unpatented, consumable supplies. Indeed, the one case most clearly on point, *Autographic Register Co. v. Sturgis Register Co.*, 6 Cir., 1940, 110 F.2d 883, 884-885, holds that such damages should not be awarded. In *Autographic Register* the court held that a patentee could not recover damages for lost sales of paper slips designed to be used in a patented register. As in the case here, the patentee derived most of his profit from the sale of unpatented supplies and very little from the sale of the machine. The court concluded, however, that this fact was immaterial and that the patent simply did not cover "perishable and consumable goods" used in the machine. *See also Union Carbide Corp. v. Graver Tank & Mfg. Co.*, 7 Cir., 1960, 282 F.2d 653, 664.

Our view that damages for unpatented supplies should not be awarded is supported by several additional considerations. First, although courts have applied the entire market value rule in certain limited circumstances, this rule is itself an exception to the more general rule that, where the patent creates only part of the profits, damages are limited to that part of the profits, which must be apportioned as between those created by the patent and those not so created. *See Westinghouse Electric & Mfg. Co. v. Wagner Electric & Mfg. Co.*, 1912, 225, U.S. 604, 614-15, 32 S.Ct. 691, 694, 56 L.Ed. 1222. The damages sustained by Velo-Bind are easily apportioned between patented and unpatented lost sales.

Second, there are many elements of damage which may be caused by an infringement and yet which are unrecoverable as a matter of law. Indirect consequential damages are not recoverable, Walker, *supra*, § 755, and lost supply sales would appear to be a similar sort of damage particularly because Velo-Bind's claim is based on projected sales.

Third, damages based on projected supply sales over an eight year period must be highly speculative. Despite testimony by Velo-Bind's witnesses as to estimated sales, the effect of our decision today must render Velo-Bind's projections uncertain. Those who continue to use the 3M machine may be subject to suit for infringement; those who supply or maintain them may be subject to suit for contributory infringement.

Finally, we do not think that *Dawson Chemical Co. v. Rohm & Haas Co.*, 1980, 448 U.S. 176, 100 S.Ct. 2601, 65 L.Ed.2d 696, affects the decision in this case. In *Dawson* the holder of a process patent on a chemical herbicide sued other manufacturers of the chemical used in the process for contributory infringement under 35 U.S.C. § 271. Emphasizing that the chemical was not a staple product under section 271(c), the Court held that the patentee might maintain the suit even though the chemical itself was unpatented and the company refused to license others to sell it.

Although *Dawson* extends some patent protection to unpatented supplies, it does so only in the particular context of a process patent, an action for contributory infringement under a specific statutory section, and a commodity conceded to be a non-staple product under the section. In light of the Court's traditional concern that

protection of a patented invention be strictly limited to the invention, we do not view the opinion in *Dawson* as establishing a rule that damages for unpatented consumable supplies may be collected in suits for direct infringement of a mechanical patent.

Accordingly, we reverse the district court's award of damages for lost profits on sales of unpatented supplies and for infringement of design '195. However, we do not accept 3M's further contention that the other elements of damages in the award must be overturned for lack of sufficient evidence. Velo-Bind's witnesses—primarily officers of the Company—testified at length as to lost sales and profits on the patented machines caused by the infringement as well as to the added costs incurred in rushing Model 123 into competition against 3M's machine. 3M did little at trial to discredit their testimony or to offer contradictory testimony of its own.

Moreover, the estimate that Velo-Bind would have made three of every four 3M sales was not unreasonable, perhaps was even conservative, in light of the admitted fact that strip binding machines appeal to much the same market. Velo-Bind's witnesses gave considerable testimony as to how they reached the three or four figure and as to the factors they had considered. For example, they had taken into account 3M's name, luck, differences in pricing, competition from other companies, and effectiveness of sales personnel. As to the remaining elements of damage, Groswith testified about the nature of the additional costs incurred from rushing production of the Model 123, while 3M's own witness gave testimony tending to support Velo-

Bind's claim that it could have raised the price of its machines but for 3M's competition.

Damages "are not rendered speculative or conjectural merely because they cannot be calculated with mathematical exactness." *Marquis v. Chrysler Corp.*, 9 Cir., 1978, 577 F.2d 624, 638, quoting *Loew's, Inc. v. Cinema Amusements*, 10 Cir., 1954, 210 F.2d 86, 95. The jury was fully capable of evaluating the evidence put before it. The district court did not err in refusing to overturn the verdict as to these elements of damage.

V. *Modification of the Injunction—No. 79-4584.*

3M moved the district court to modify its injunction against further infringement by 3M "to provide that the manufacture, use and sale of a binding machine which 3M has designed as the Model No. 1000DA . . . does not constitute an infringement of either of the two mechanical patents in suit." The district court denied the motion expressing "reluctance to engage in a summary procedure of this nature" as well as uncertainty "that the Model 1000DA does not infringe the mechanical patents in question."

We believe that the district court was correct in refusing to accept 3M's proposed modification. 3M's request was less one for clarification or modification than one for a summary adjudication of an infringement claim. In refusing the request for modification, the court below relied upon *Atiyeh v. Filtex Corporation*, S.D.Cal., 1955, 130 F.Supp. 196, in which a virtually identical request for modification was made by a patent infringer. There the court found that the request was in essence a disguised action for a declaratory judgment: "Yet, rather than taking the form of an action

for declaratory relief, defendant has chosen to present the matter by this summary method. One function of the declaratory judgment act was to afford relief against the peril and insecurity of defying an injunction decree in a patent suit. . . . [The defendant's] method would . . . seem to circumvent the patentee's right to a trial of the fact issues by a jury." *Id.* at 197 (citations omitted). We agree with this reasoning and with the district court's refusal to engage in "a supplemental summary proceeding in a former patent infringement case." *Id.* at 198.

Moreover, although its position is not entirely clear, 3M appears to argue either that its request for modification was taken under Rule 62(c), F.R.Civ.P., or as an appeal to the district court's inherent authority to modify its injunctions. Under either theory the request appeals to the discretion of the district court. See Rule 62(c), F.R.Civ.P. ("the court in its discretion may . . . modify . . . an injunction during the pendency of the appeal . . ."); *Regal Knitwear Co. v. NLRB*, 1945, 324 U.S. 9, 15, 65 S.Ct. 478, 482, 89 L.Ed. 661 (". . . such relief would be in the sound discretion of the court . . ."). The district court's refusal to grant 3M's request for relief amounting to the summary adjudication of a separate and prospective act of infringement was not an abuse of its discretion.

We need not and do not express any opinion as to whether the proposed machine infringes any of Velo-Bind's claims.

VI. *Treble Damages and Attorneys' Fees—No. 79-3338*

Velo-Bind cross-appeals from the district court's refusal to increase the damages as provided by 35 U.S.C. § 284—

"the court *may* increase the damages up to three times the amount found or assessed" (emphasis added)—or to award attorneys' fees as provided by 35 U.S.C. § 284—"the court in exceptional cases *may* award reasonable attorney fees to the prevailing party." (emphasis added).

Velo-Bind argues, as it must, that the district court's refusal to award these additional sums was an abuse of its discretion. We find no such abuse. The questions of patent validity and infringement in this case are complex and close. The district court's conclusion that 3M's conduct was not so egregious or exceptional as to compel additional damages or attorneys' fees was a proper exercise of its discretion. *See Troy Company v. Products Research Company,* 9 Cir., 1964, 339 F.2d 364, 367-68.

In No. 79-3338 and No. 79-4584 the judgment is affirmed. In No. 79-4448 the judgment is reversed in part and affirmed in part and the matter is remanded for further proceedings consistent with this opinion, either by granting a new trial on the issue of damages or by granting a new trial subject to a remittitur of the amount of damages attributable to lost profits upon sales of unpatented paper, plastic strips and covers and for infringement of design '195.

POOLE, Circuit Judge, dissenting, in part, and concurring, in part:

The majority's resolution of the infringement-validity problems of this case has a certain neat appeal, particularly since a jury has already passed on some of the underlying issues. Respectfully I must nonetheless dissent. I do so because after applying my own best analysis, I cannot agree that 3-M's binding machine does in fact infringe Velo-

Bind's patent unless one gives those claims interpretation so broad that they would be invalid.

A patent presupposes an invention or discovery (35 U.S.C. § 100(a)), and may only be obtained for a "new and useful process, machine, • • • or any new and useful improvement thereof, • • •." 35 U.S.C. § 101. Velo-Bind's primary claims describe a means of securing and inserting plastic pins contained in one strip into complementary holes in an opposing strip. This type of fastening is not by itself new and would not entitle Velo-Bind to a patent. The majority opinion describes the alternate methods of securing such pins in the manner of a ratchet (which is what the 3-M machine does); by the familar carpenter's practice of driving a tapered nail (which would not be patentable); or by fashioning a rivet head to secure the pins once they have been inserted. The latter is what the Velo-Bind patents do and they do it by the heated knife process. Therein lies the heart of the matter for without some type of heat the rivet head could not be fashioned and Velo-Bind's patent would not work except by one of the other methods.

Velo-Bind's primary claims are said to deal with shearing the pins after insertion. This alone is neither remarkable or patentable. But the specifications leave in no doubt the fact that the machine is designed not only to cut the excess pins after they have entered the opposing strip, but to soften them and then by force to hammer them into the rivet heads which hold the bound material together. Fashioning these rivet heads is not simply cosmetic; it is the essential aspect of the Velo-Bind machine. By contrast, use of ratchet pins is the essential element of the 3-M ma-

chine. 3-M's binding process is complete when the ratchet pins have been inserted and locked. Unlike Velo-Bind's device, it does not require a rivet head for security.

Under 35 U.S.C. § 112, the specifications describe the invention, the manner and process of making and using it, and are required to do so in "such full, clear, concise and exact terms as to enable any person skilled in the art * * * to make use of the same, and [to] set forth the best mode contemplated by the investor for carrying out his invention." Noting that by the use of "means" terminology "a claim shall be construed to cover the corresponding structure, material or acts described in the specifications and equivalents thereof," (Op., p. [968], slip op. p. 2781), the majority avoids the logical conclusion that in this case claims-plus-specifications establish the indispensability of some heating element. It states that Velo-Bind's claims merely relate to differential "shear means." It bolsters this position by reliance upon the testimony of Zimmerman, Velo-Bind's witness, to the effect that the "shear means" function, hot or cold, operates simply to cut off the stud ends. (Op. p. [969], slip op. p. 2782) I find this testimony unacceptable in the face of the fact that when the actual claims here are read in the light of the specifications it is clear that the heating element is what makes this invention work.

If on the other hand, the patents, claims and specifications are held to embrace *any* mechanism which joins plastic strips by pins and then cuts off the excess length of the pins, there would be nothing to "attain the degree of novelty necessary to establish non-obviousness in the case

of a combination." *Lawrence v. The Gillette Company, et al.*, 603 F.2d 68 (9th Cir. 1979). Nor should we look to the claims alone in order to decide infringement, and then look to the claims in the light of their specifications in deciding validity. This court said in *Wire Tie Machinery Co., et al. v. Pacific Box Corp.*, 107 F.2d 54 (9th Cir. 1939):

> Appellant cannot be permitted to construe his claims with reference to his drawings and specifications in order to escape invalidity, and then in the next breath seek to disregard the drawings and specifications in order to spell infringement.

107 F.2d at 55.

The testimony of Zimmerman upon which the majority places reliance, asserted that the function of the "shear means" in the patented machine was simply to enable it to accommodate different thicknesses of bound volumes. In other words, that its effect was merely cosmetic. This is completely inconsistent with the operation of the machine taken in the totality of its claims and specifications.

I concur in the majority's opinion to the extent that it disapproves the award of damages for loss sales of unpatented consumable supplies as well as its affirmance of the trial court's denial of treble damages and attorneys fees but I would reverse the finding of infringement.

Appendix B

United States Court of Appeals
For the Ninth Circuit

No. 79-4448

No. 79-3338

Velo-Bind, Incorporated, a California corporation,
Plaintiff-Appellee and Cross-Appellant,

vs.

Minnesota Mining and Manufacturing Company,
a corporation; 3M Business Products Sales, Inc.,
a corporation; Ro-Bind Corporation, a corporation;
and Rally Industries, a corporation,
Defendants-Appellants and Cross-Appellees.

[Filed July 14, 1981]

ORDER

Before: Duniway, Sneed and Poole, Circuit Judges

The petition of defendants-appellants for a rehearing and the petition of appellee and cross-appellant for a rehearing are each hereby denied.

Appendix C

In the United States District Court
for the Northern District of California

No. C-75-0911-WAI(SJ)

Velo-Bind, Incorporated, a California corporation,
Plaintiff,

vs.

Minnesota Mining and Manufacturing Company,
a corporation, et al.,
Defendants.
[Filed May 7, 1979]

ORDER

The motion of plaintiff Velo-Bind for permanent injunction, treble damages, and attorneys fees was considered by the Court at two hearings occurring on April 20 and April 27, 1979, respectively. Each of the memoranda filed by the parties and the evidence and argument elicited at the hearings was carefully considered.

The Court finds that plaintiffs are entitled to a permanent injunction enjoining and restraining defendants directly or indirectly from further manufacturing devices found by the jury to infringe plaintiff's patent. Defendant has filed at the Court's request, Proposed Findings of Fact and Conclusions of Law which appear to be in order except

that the continued supplying by 3M of maintenance materials to persons who have already bought the device in question should not be enjoined.

The Court further finds no sufficient equitable reason to justify the increase in damages or the award of attorneys fees. Therefore, upon the filing by the Court of Findings of Fact and Conclusions of Law, judgment is ORDERED entitled upon the jury's verdict and said findings. The Court will file its Findings and Conclusions on May 21, 1979,* in the absence of any objections or request for further hearing.

Dated: May 7, 1979

/s/ WILLIAM A. INGRAM

William A. Ingram
United States District Judge

*There were separate findings for the injunction that were in all relevant respects identical to the findings in the judgment entered May 18, 1979 (Appendix D).

Appendix D

United States District Court
For the Northern District of California

Civil Action No. C-75-0911 WAI (SJ)

Velo-Bind, Incorporated, a California corporation,
Plaintiff,

vs.

Minnesota Mining and Manufacturing Company,
a corporation; 3M Business Products Sales, Inc.,
a corporation; Ro-Bind Corporation, a corporation;
Rally Industries, a corporation; and Joe D. Giulie,
Defendants.

[Filed May 17, 1979]

[entered in Civil Docket May 18, 1979]

JUDGMENT

This action came on for trial before the Court and a jury, the Honorable William A. Ingram, District Judge, presiding; the issues having been duly tried; the Court having directed a verdict in favor of plaintiff and against defendants on the defense of unclean hands in the prosecution of the patents in suit; and the jury having duly rendered its verdict in favor of plaintiff Velo-Bind, Incorporated and against defendants Minnesota Mining and Manufacturing Company, a Delaware corporation, 3M Business Products Sales, Inc., a Delaware corporation, Ro-Bind Corporation, formerly a California corporation, Rally In-

dustries, formerly a California corporation, and Joe D. Giulie in the sum of $3,934,333; defendants, and each of them, having moved the Court for judgment notwithstanding the verdict and for new trial and the Court, except as to defendant Joe D. Giulie, having denied each of said motions by its Memorandum of Decision on Motions for Judgment Notwithstanding the Verdict and For New Trial; plaintiff having moved the Court for a permanent injunction and the Court having made and filed its Findings of Fact and Conclusions of Law; Order for Permanent Injunction granting said motion and issuing said permanent injunction; and, plaintiff having moved the Court for increased damages and attorneys' fees and the Court having denied said motions,

IT IS HEREBY ORDERED, ADJUDGED AND DECREED as follows:

1. This Court has jurisdiction over the parties and over the subject matter in issue.

2. Claims 1, 2 and 3 of United States Letters Patent No. 3,608,117, Claims 1 and 7 of United States Letters Patent No. 3,756,625 and United States Letters Patent No. D227,195 are good and valid in law.

3. Plaintiff Velo-Bind, Incorporated is possessed of the entire right, title and interest in and to said Letters Patent Nos. 3,608,117, 3,756,625 and D227,195, together with the right to sue for and collect for damages for infringement thereof and has been possessed thereof continuously since the issuance of each of said Letters Patent.

4. Defendants Minnesota Mining and Manufacturing Company, 3M Business Products Sales, Inc., Ro-Bind Cor-

poration and Rally Industries have each infringed Claims 1, 2 and 3 of Letters Patent No. 3,608,117, Claims 1 and 7 of Letters Patent No. 3,756,625 and Letters Patent No. D227,195 by making and selling the machine in evidence as the 3M Model 1000.

5. That plaintiff Velo-Bind, Incorporated recover from defendants Minnesota Mining and Manufacturing Company, 3M Business Products Sales, Inc., Ro-Bind Corporation and Rally Industries, jointly and severally, the sum of $3,934,333, with interest thereon at the rate of 7% commencing November 20, 1978, and its costs of action.

6. Pursuant to the Memorandum of Decision on Motions For Judgment Notwithstanding The Verdict and For New Trial, filed April 5, 1979, that plaintiff take nothing against defendant Joe D. Giulie and that said defendant Joe D. Giulie not recover costs against the plaintiff.

7. Based upon and pursuant to the Findings of Fact and Conclusions of Law on Motion for Permanent Injunction; Order for Permanent Injunction, filed May 11, 1979, that defendants Minnesota Mining and Manufacturing Company, a Delaware corporation, 3M Business Products Sales, Inc., a Delaware corporation, Ro-Bind Corporation, formerly a California corporation, and Rally Industries, formerly a California corporation, and each of them, and their respective agents, subsidiaries, affiliated companies and employees, be and they hereby are permanently enjoined from directly or indirectly infringing or inducing or contributing to the infringement of Claims 1, 2 and 3 of United States Letters Patent No. 3,608,117, Claims 1

and 7 of United States Letters Patent No. 3,756,625 and United States Letters Patent No. D227,195, and particularly from manufacturing, selling, leasing, advertising, offering for sale, transferring or conveying any machine substantially of the design of that in evidence as the 3M Model 1000 or any other machine which has been found to infringe or which embodies any invention defined in any of the claims of any of said patents.

The manufacture, use and sale of binding strips for use in those 3M Model 1000 machines already sold prior to the date of the Order for Permanent Injunction, filed May 11, 1979, is not prohibited by the injunction awarded.

8. Each party hereto shall bear its own attorneys' fees and no attorneys' fees are awarded to any party.

Dated: May 17, 1979

/s/ WILLIAM A. INGRAM

William A. Ingram
United States District Judge

Office - Supreme Court, U.S.
FILED
NOV 9 1981
ALEXANDER L. STEVAS

No. 81-681

In the Supreme Court of the United States

October Term, 1981

VELO-BIND, INCORPORATED,
Petitioner,

vs.

MINNESOTA MINING AND MANUFACTURING COMPANY, *et al.*,
Respondents.

ON CERTIORARI TO THE UNITED STATES COURT OF APPEALS
FOR THE NINTH CIRCUIT

BRIEF OF MINNESOTA MINING AND MANUFACTURING COMPANY OPPOSING CERTIORARI SOUGHT BY VELO-BIND, INCORPORATED

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November 3, 1981

THE GATES LEGAL PUBLISHING CO., CLEVELAND, OHIO—TEL. (216) 621-5647

RULE 28.1 STATEMENT

Subsidiaries and affiliates of Minnesota Mining and Manufacturing Company

U.S.:

Cable Networks Incorporated
Eastern Heights State Bank of Saint Paul

Foreign:

Neotechnic Engineering Limited	(U.K.)
P.T. 3M Indonesia	(Indonesia)
Marupi-Riker Company Ltd.	(Japan)
Sumitomo 3M Limited	(Japan)
Yamagata 3M Limited	(Japan)
3M Business Systems Limited	(Japan)
3M Health Care Limited	(Japan)
3M Korea Limited	(Korea)
Minnesota Nigeria Limited	(Nigeria)
Etkins Holdings (Pty.) Ltd.	(So. Africa)

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ON CERTIORARI TO THE UNITED STATES COURT OF APPEALS
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BRIEF OF MINNESOTA MINING AND MANUFACTURING COMPANY OPPOSING CERTIORARI SOUGHT BY VELO-BIND, INCORPORATED

Velo-Bind in this patent case, companion to No. 81-677, complains that the Ninth Circuit (Judges Duniway, Sneed and Poole) unanimously (1) denied Velo-Bind damages for lost profit on the sale of "unpatented paper, plastic strips, and book and document covers" for use in Velo-Bind's patented book binding machine, 647 F.2d at 967, 972, A-4, 15-16, and (2) denied increased damages and attorney's fees. 647 F.2d at 975, A-23.

There is no merit to either claim:

1. Damages Are Not Recoverable For Non-Patented Consumable Supplies

Recovery may not be had for lost profits on sales of non-patented consumable supplies—in this case, paper, plastic strips, and book and document covers—used in Velo-Bind's patented book and document binding machines.

The reasons are:

The Constitution, Article I, Section 8, clause 8, provides for patents on *"Discoveries."* The paper, plastic strips, and book and document covers are *not* Velo-Bind's "Discoveries." Velo-Bind has no monopoly on their use.

The patent issues to reward those who *add* to the common stock of useful materials, things, and knowledge. It does not issue to protect one who would *withdraw* from the common storehouse, and appropriate for his own use, items open to all of the public.

The statute, 35 U.S.C. §284, allows damages *"for the infringement."* Sales of non-patented consumable supplies infringe no patent. The point is:

> "If it is desirable that the inventor secure an exclusive right in his invention, it is equally essential that his privilege shall not trespass upon what is not his." 13 LAW AND CONTEMPORARY PROBLEMS, DUKE UNIVERSITY, pp. 245, 256, *What Is a Patent?* by Walton Hamilton and Irene Till.

Public policy, defined in this Court's cases, makes plain that the patent owner must be content with what he has patented. Consider, for example:

> *Carbice Corporation of America v. American Patents Development Corporation* (1931), 283 U.S. 27,

where the Court held (p. 31) "to permit the patent-owner 'to derive its profit, not from the invention on which the law gives it a monopoly *but from the unpatented supplies* with which it is used,' is 'wholly without the scope of the patent monopoly.' "[1]

Leitch Manufacturing Co. v. Barber Company (1938), 302 U.S. 458, where the Court held (p. 461) "the patent did not confer upon The Barber Company the right to be free from competition *in supplying unpatented material* to be used in practicing the invention * * *."

Morton Salt Co. v. G. S. Suppiger Co. (1942), 314 U. S. 488, where the Court held (p. 492) "the public policy which includes inventions within the granted monopoly excludes from it all that is not embraced in the invention."

The underpinning for Velo-Bind's supplies argument is the claim that Velo-Bind lost a sale on the patented machine, and—but for the infringement—would have sold the machine. Yet it is exactly this postulating of its own sale that causes Velo-Bind's theory to self-destruct.

The purchaser of the machine acquires an automatic license to buy from *any* source, and without paying tribute to the patent owner, the non-patented materials he needs in using the machines:

Adams v. Burke (1873), 17 Wall. 453, 455-456;

United States v. Univis Lens Co., Inc. (1942), 316 U.S. 241, 249, 251.

As the Court put it in *Adams* (p. 455):

"We have repeatedly held that where a person had purchased a patented machine of the patentee

1. Emphasis supplied throughout.

or his assignee this purchase carried with it the right to the use of that machine so long as it was capable of use * * *. The true ground on which these decisions rest is that the sale by a person who has the full right to make, sell, and use such a machine *carries with it the right* to the use of that machine to the full extent to which it can be used * * *."

The reason is, as the Court pointed out in *United States v. Univis* (p. 249):

"An incident to the purchase of any article, whether patented or unpatented, is the right to use * * * it * * *."

The Court added (p. 251):

"Our decisions have uniformly recognized that the purpose of the patent law is fulfilled with respect to any particular article when the patentee has received his reward for the use of his invention by the sale of the article, and that once that purpose is realized the patent law affords no basis for restraining the use and enjoyment of the thing sold. *Adams v. Burke,* supra, 456; *Keeler v. Standard Folding Bed Co.,* 157 U.S. 659; *Motion Picture Co. v. Universal Film Co.,* 243 U.S. 502; and see cases collected in *General Pictures Co. v. Electric Co.,* 305 U.S. 124, 128, n.1. In construing and applying the patent law so as to give effect to the public policy which limits the granted monopoly strictly to the terms of the statutory grant, *Morton Salt Co. v. Suppiger Co.,* 314 U.S. 488, the particular form or method by which the monopoly is sought to be extended is immaterial."

The *Aro* cases confirm this rule:

Aro Manufacturing Co., Inc. v. Convertible Top Replacement Co., Inc. (1961), 365 U.S. 336, 342, 345 (Aro I);

Aro Manufacturing Co., Inc. v. Convertible Top Replacement Co., Inc. (1964), 377 U.S. 476, 484, 497, 510 (Aro II).

In the first *Aro* case the Court pointed out that it has (p. 342):

> "steadfastly refused to extend the patent monopoly beyond the terms of the grant. *Wilson v. Simpson*, 9 How. 109—doubtless the leading case in this Court that deals with the distinction—concerned a patented planing machine which included, as elements, certain cutting knives which normally wore out in a few months' use. The purchaser was held to have the right to replace those knives without the patentee's consent."

In the second *Aro* case the Court said (p. 497):

> "When the patentee has sold the patented article or authorized its sale and has thus granted to the purchaser an 'implied license to use,' it is clear that he cannot thereafter restrict that use; 'so far as the use of it was concerned, the patentee had received his consideration, and it was no longer within the monopoly of the patent.' *Adams v. Burke*, 17 Wall. 453, 456. In particular, he cannot impose conditions concerning the *unpatented supplies, ancillary materials, or components with which the use is to be effected.*"

Common sense says there can be no recovery for non-patented consumable supplies used in the patented machines. As the Court of Appeals observed, Velo-Bind:

> "admits that if 3M had deprived Velo-Bind of virtually all of its profits by simply selling strips, paper, and covers to Velo-Bind's customers, without selling the

infringing machine, Velo-Bind would have had no claim for relief under the patent laws." 647 F.2d at 972, A-16.

Velo-Bind's claim thus founders on the proposition: where there has been no wrong the law provides no remedy.

Moreover, to grant Velo-Bind damages for asserted lost sales of non-patented consumable supplies would entail wholesale overturn of law.

The claim for increased damages and attorney's fees is equally without basis:

2. Increased Damages and Attorney's Fees Were Also Properly Denied

The Court of Appeals properly denied the claim for increased damages and for attorney's fees. The Court of Appeals observed:

> "The questions of patent validity and infringement in this case are complex and close. The district court's conclusion that 3M's conduct was not so egregious or exceptional as to compel additional damages or attorneys' fees was proper exercise of its discretion." 647 F.2d at 975, A-23.

Where the questions of validity and infringement are as doubtful as the Court of Appeals found them to be, no basis exists for increase of damages or for attorney's fees. See for example:

> *Dunkley Co. v. Vrooman* (6th Cir., 1921), 272 Fed. 468, where the court observed (p. 469): "The question of infringement was too doubtful to leave room for any award of extra damages * * *."

Rockwood v. General Fire Extinguisher Co. (2nd Cir., 1930), 37 F.2d 62, where the court said (p. 66):

> "The validity of the patent and its infringement was open to honest doubt, and it was not until this court passed upon the question that the defendants were found to infringe."

That is surely the rule of good sense. As the court remarked in *Enterprise Mfg. Co. v. Shakespeare Co.* (6th Cir., 1944), 141 F.2d 916, 921, a court "does not readily infer wrong motivation upon the part of those resisting the validity of patent claims. Patentees generally entertain suspicion that those who challenge their claims are deliberate malefactors." Similary in *Cincinnati Car Co. v. New York Rapid Transit Corporation* (2nd Cir., 1933), 66 F.2d 592, the court cautioned (p. 593), "Patent infringement often involves nice and casuistical questions which it is mere artifice to treat as involving moral delinquency."

The District Court gave Velo-Bind's effort to increase damages and to recover attorney's fees full and thoughtful consideration. The District Court noted that Velo-Bind's claim for:

> "treble damages, and attorneys fees was considered by the Court at two hearings occurring on April 20 and April 27, 1979, respectively. Each of the memoranda filed by the parties and the evidence and argument elicited at the hearings was carefully considered." A-28.

The upshot was that the trial court, fully conversant with the issues, concluded, the court:

> "finds no sufficient equitable reason to justify the in- A-29.

Attorney's fees and increased damages were properly denied for an additional reason. Velo-Bind, in this very Court, is misusing its patents by asserting claim not only for infringement but by seeking to stretch the coverage of its patents to embrace non-patented consumable supplies —paper, plastic strips, and book and document covers— used in its binding machines. In light of this, it would, if anything, have been an abuse of discretion to grant attorney's fees or to increase the damages.

CONCLUSION

The Petition for a Writ of Certiorari sought by Velo-Bind presents no questions not already long and well settled. The writ should be denied; the writ sought by Minnesota Mining should be granted.

Respectfully submitted,

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